

**CHEBOYGAN AREA PUBLIC LIBRARY
CHEBOYGAN, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

CHEBOYGAN AREA PUBLIC LIBRARY

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INDEPENDENT AUDITORS' REPORT

Midwest Professionals, P.L.L.C

Certified Public Accountants

*215 South Court Avenue, Gaylord, MI 49735
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INDEPENDENT AUDITOR'S REPORT

To the Library Board of Trustees
Cheboygan Area Public Library
Cheboygan, Michigan

We have audited the accompanying general purpose financial statements of the Cheboygan Area Public Library (the "Library"), as of and for the year ended June 30, 2008. These general purpose financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Cheboygan Area Public Library, as of June 30, 2008 and the results of operations for the year then ended June 30, 2008.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods and measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Member of American Institute of Certified Public Accountants
Member of Michigan Association of Certified Public Accountants*

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September 12, 2008
Gaylord, Michigan

*Member of American Institute of Certified Public Accountants
Member of Michigan Association of Certified Public Accountants*

MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Cheboygan Area Public Library, a District Library located in Cheboygan County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34 is intended to be the Cheboygan Area Public Library's management discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

This section of the financial report presents our discussion and analysis of the Cheboygan Area Public Library's ("Library") financial performance during the year ending June 30, 2008. Please read it in conjunction with the Library's financial statements, which follow this section.

Financial Highlights

- Revenues of the Library totaled \$774,084. The majority of these funds were in the form of property taxes for general operating expense.
- During the year, the Library was the recipient of an estate donation of nearly \$91,000, most of which has been deposited into the Library Foundation.
- There was a dramatic reduction in the amount of money the Library received in Penal Fines. This resulted in almost a 20% reduction in the funds distributed by the County.
- Expenses of the Library's activities were \$650,825 for the year, which included \$7,651 in capital outlay for new shelving. This represents the spending of millage and other revenues.
- The Library continues to expend resources in the Library Improvement budget line for capital improvements of the Library. The funds residing in the Library Improvement line are unexpended funds from the library expansion project.
- During the year, the Library's total net assets of governmental activities increased by \$45,315, a 3.8% increase. This increase was due to an increase in donations.
- The resources available for appropriation in the general fund were \$566,649, which was more than the budget by \$79,389 due to under-budgeting of anticipated revenues. General fund charges to appropriations were \$487,260, which was over the budget by approximately \$9,611. This relates to monies spent on operating and capital outlay support in excess of anticipated expenditures.

Overview of Financial Statements

- This annual report consists of four parts- Management's discussion and analysis (this section), the basic financial statements of the primary government, required supplementary information- budget to actual comparison schedules, and the single audit section. The basic financial statements include two kinds of statements that present different views of the Library:

The first two statements, the Statement of Net Assets and the Statement of Activities are *primary government financial statements* that provide both long-term and short-term information about the Library's *overall* financial status. The remaining statements are *fund financial statements* that focus on individual parts of the Library, reporting operations in more detail than the primary government financial statements. Fund financial statements include:

- Governmental fund financial statements that tell how general library services were financed along with capital projects and debt service.
- Debt Service fund financial statements provide financial information about the Library's long and short-term obligations for various uses.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. The statements are followed by a section of required supplementary information comprised of budgetary comparison schedules, which further explain and support the information in the financial statements. The table of contents section of this report clearly outlines the components of the Library's annual financial report.

Figure 1 summarizes the major features of the Library's financial statements, including the portion of the Library they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure 1
Major Features of Primary Government and Fund Financial Statements

	Primary Government Statements	Fund Statements Governmental Funds
Scope	Entire Library except fiduciary funds.	The activities of the Library that are not proprietary or fiduciary.
Required financial statements	1) Statement of net assets 2) Statement of activities	1) Balance Sheet 2) Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that are due during the year or soon thereafter; no capital assets included.
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and other liabilities when due and payable.

Primary Government Statements

The Primary government financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave). In the Statement of Net Assets and the Statement of Activities, we present the Library into this kind of activity:

- *Governmental Activities*—All of the Library's basic services are reported here in support and they include high-speed internet, children and adult programs, providing books and audio visual materials. These activities are financed primarily through property tax revenue, which is 69% of total revenues.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The Library establishes funds by resolution to help it control and manage money for a particular purpose, or in order to demonstrate that it is meeting legal responsibilities for using certain grants and other money. The three fund types—governmental, proprietary, and fiduciary—use different accounting approaches.

- Governmental fund financial statements are comprised of the general, capital projects (when necessary), and debt service funds that tell how general government services are funded. In addition governmental funds focus on how cash and other financial assets flow in and out and the balances that are left at year-end and are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. Because this information does not encompass the additional long-term focus of the Library-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between governmental and business-type activities and balances reported in the Statement of Net Assets and the Statement of Activities and governmental funds statements.

Financial Analysis of the Library as a Whole

Net Assets.

The Library's primary government net assets increased by \$45,315 (3.8%) during the year. Table 1 summarizes the Library's primary government net assets for the last two years:

Table 1 - Library's Primary Government - Net Assets

	Governmental Activities	
	6/30/2008	6/30/2007
Current and other assets	\$ 938,664	\$ 824,511
Capital assets (net of accumulated depreciation)	3,063,056	3,186,410
Total Assets	4,001,720	4,010,921
Short term liabilities	106,960	61,476
Long term liabilities	2,650,000	2,750,000
Total Liabilities	2,756,960	2,811,476
Net assets		
Restricted		
Invested in capital assets, net of related debt	313,056	386,410
Restricted for Contributions/Grants	16,567	11,675
Restricted for Debt Service	156,574	93,220
Unrestricted	758,563	708,140
	<u>\$ 1,244,760</u>	<u>\$ 1,199,445</u>

Changes in Net Assets.

Table 2 summarizes the Library's change in net assets for the last two years:

Table 2 - Change in Library's Net Assets

	Governmental Activities	
	6/30/2008	6/30/2007
Revenues		
Charge for Services	\$ 11,997	\$ 13,983
Property Taxes	537,840	480,582
Penal Fines	79,933	99,351
State Aid	10,504	5,803
State Humanities Capital Grant	-	27,500
Investment Earnings	27,553	40,650
Donations & Grants	106,257	14,222
Total Revenues	774,084	682,091
Expenses		
Library Services	297,895	241,866
Administration	86,008	114,612
Other	340,277	382,955
Total Expenses	724,180	739,433
Increase (Decrease in Net Assets)	49,905	(57,343)
Unrealized (Loss) on Investment	(4,590)	-
Total Increase (Decrease in Net Assets)	<u>\$ 45,315</u>	<u>\$ (57,343)</u>

The increase in net assets is due mostly to an increase in donations to the library.

Governmental Activities

Financial Analysis of the Library's Funds

The total fund balance of the General Fund increased by \$74,799 during the fiscal year, due to an increase in donations. The restricted fund balance of the Debt Service Fund had an increase of \$43,870. The restricted General Fund balance increased by \$4,891.

Capital Assets

During the fiscal year ending June 30, 2008, the Library invested \$7,651 in capital assets. The following changes in capital assets occurred during the last fiscal year:

Table 3 - Capital Assets at Year End June 30 for 2008 & 2007

	6/30/2007	Additions	6/30/2008
Building and improvements	\$ 3,265,008	\$ -	\$ 3,265,008
Furniture and equipment	64,739	7,651	72,390
Total Capitalized Assets	3,329,747	7,651	3,337,399
Less: Accumulated Depreciation	(143,337)	(131,006)	(274,343)
Capital Assets Net of Depreciation	3,186,410	(123,355)	3,063,056

See Note 10 for further details in regard to Capital Assets

Long Term Debt

At the end of fiscal year ending June 30, 2008, the Library had serial bonds in the amount of \$2,750,000 outstanding. The following payment was made during the fiscal year:

Table 7 - Long Term Debt at Year End June 30 for 2008 & 2007

	6/30/2007	Principal Paid	6/30/2008
Tax Bonds	\$ 2,800,000	\$ (50,000)	\$ 2,750,000

This debt was incurred to finance the construction of the new Library. See Note 6 for further details in regard to Long Term Debt.

Budget Variances

The Library's General Fund Budget was over expended by the end of the fiscal year. Although the Library was over budget for revenues, expenditures exceeded all revenues received. Spending for capital expenditures has been planned for several years. The Library has been saving in anticipation of renovating and expanding the facilities. These were anticipated expenditures towards the completion of the Capital Campaign. (*See the Required Supplemental Information Section for detail.*)

Economic Factors and Next Year's Budgets

The Library is well aware of the increasing competition for federal and state grants, and strives to maintain an equal or greater funding level than the previous year. Property tax is the primary source of income. The economic climate appears to be currently stable, we do not anticipate any major changes in total income despite the possibility of reduction in State Aid or Penal Fine revenue. These funding sources are vital to our continued operations, yet circumstances beyond our control are issues that must always be considered.

Contacting the Library's Financial Management

This financial is designed to provide the reader with a general overview of the Library's finances and to demonstrate the Library's accountability for the resources it receives. If you have any questions about this report or need additional information, contact Mark Bronson, Executive Director, Cheboygan Area Public Library, 100 South Bailey Street, Cheboygan, MI 49721

BASIC FINANCIAL STATEMENTS

LIBRARY-WIDE FINANCIAL STATEMENTS

Cheboygan Area Public Library
Statement of Net Assets
As of June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 764,069
Penal Fines Receivable	79,933
Investments (Net of Unrealized Loss)	94,662
Capital Assets (Net of Accumulated Depreciation)	<u>3,063,056</u>
Total Assets	<u><u>\$ 4,001,720</u></u>
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 2,196
Wage & Payroll Liabilities	4,764
Bonds Payable due within one year	<u>100,000</u>
Total current liabilities	<u>106,960</u>
Non-current Liabilities:	
Bonds Payable due in more than one year	<u>2,650,000</u>
Total non-current liabilities	<u>2,650,000</u>
Total Liabilities	<u>2,756,960</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	313,056
Restricted for:	
Contributions/Grants	16,567
Debt Service	156,574
Unrestricted	763,153
Unrealized (Loss) on Investments	<u>(4,590)</u>
Total Net Assets	<u><u>\$ 1,244,760</u></u>

The accompanying notes are an integral part of these financial statements.

Cheboygan Area Public Library
Statement of Activities
For the Year Ended June 30, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Governmental Governmental Activities
Primary Government				
Governmental Activities				
Library Services	\$ 297,895	\$ -	\$ -	\$ (297,895)
Administration	86,008	-	-	(86,008)
Other	340,277	11,997	5,735	(322,545)
Total Governmental Activities	<u>\$ 724,180</u>	<u>\$ 11,997</u>	<u>\$ 5,735</u>	(706,448)
General Revenues				
Property Taxes				537,840
Penal Fines				79,933
State Aid				10,504
Investment Earnings				27,553
Donations				<u>100,522</u>
Total General Revenue				<u>756,354</u>
Change in Net Assets				49,905
Unrealized (Loss) on Investments				(4,590)
Net Assets - Beginning of the Year				<u>1,199,445</u>
Net Assets - End of the Year				<u>\$ 1,244,760</u>

The accompanying notes are an integral part of these financial statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Cheboygan Area Public Library
Balance Sheet - Governmental Funds
As of June 30, 2008

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 617,323	\$ 146,746	\$ 764,069
Penal Fines Receivable	79,933	-	79,933
Investments Net of Unrealized Loss	94,662	-	94,662
Due From Other Funds	-	9,828	9,828
Total Assets	<u>\$ 791,918</u>	<u>\$ 156,574</u>	<u>\$ 948,493</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 2,196	\$ -	\$ 2,196
Wages & Payroll Liabilities	4,764	-	4,764
Due to Other Funds	9,828	-	9,828
Total Liabilities	<u>16,788</u>	<u>-</u>	<u>16,788</u>
Fund Balances			
Restricted:			
Contributions/Grants	16,567	-	16,567
Capital Projects	-	-	-
Debt Service	-	156,574	156,574
Unrestricted	-		
Designated for contingency	350,000	-	350,000
Designated for library improvements	77,949	-	77,949
Undesignated	335,204	-	335,204
Unrealized (Loss) on Investments	(4,590)	-	(4,590)
Total Fund Balances	<u>775,130</u>	<u>156,574</u>	<u>931,704</u>
Total Liabilities and Fund Balances	<u>\$ 791,918</u>	<u>\$ 156,574</u>	<u>\$ 948,493</u>

The accompanying notes are an integral part of these financial statements.

Cheboygan Area Public Library
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2008

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Property Taxes-General Operating	\$ 333,205	\$ -	\$ 333,205
Property Taxes-Debt	-	204,635	204,635
State Aid	10,504	-	10,504
Penal Fines	79,933	-	79,933
Investment Revenue	24,753	2,801	27,553
Donations	100,522	-	100,522
Other Revenue	17,732	-	17,732
Total Revenues	<u>566,649</u>	<u>207,435</u>	<u>774,084</u>
Expenditures			
Current			
Library Services	297,895	-	297,895
Administration	86,008	-	86,008
Other	95,705	1,465	97,171
Capital Outlay	7,651	-	7,651
Debt Service		-	-
Principal	-	50,000	50,000
Interest	-	112,100	112,100
Total Expenditures	<u>487,260</u>	<u>163,565</u>	<u>650,825</u>
Revenues Over (Under) Expenditures	<u>79,389</u>	<u>43,870</u>	<u>123,259</u>
Other Financing Sources (Uses)			
Unrealized (Loss) on Investment	<u>(4,590)</u>	-	<u>(4,590)</u>
Total Other Financing Sources (Uses)	<u>(4,590)</u>	-	<u>(4,590)</u>
Net Change In Fund Balances	74,799	43,870	118,669
Fund Balances, Beginning of Year	700,331	112,704	813,035
Fund Balances , End of Year	<u>\$ 775,130</u>	<u>\$ 156,574</u>	<u>\$ 931,704</u>

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN AREA PUBLIC LIBRARY
Reconciliation of Balance Sheet - Governmental Funds
To Statement of Net Assets
For the Year Ended June 30, 2008

Total Fund Balance -Governmental Funds	\$	931,704
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Amounts reported for governmental activities in the statement of net assets are different because capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,063,056
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Long term liabilities are not due and payable in the current period and are not reported in the funds		(2,650,000)
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Current Maturities of Debt, Due within one year		(100,000)
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Net Assets of Governmental Activities	\$	<u>1,244,760</u>
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CHEBOYGAN AREA PUBLIC LIBRARY
Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds To Statement of Activities
For the Year Ended June 30, 2008

Net Change in Fund Balances - Governmental Funds	\$	118,669
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital outlays are reported in governmental funds as expenditure. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. In the current period these amounts are:

Capital Outlay	\$	7,651	
Depreciation Expense		<u>(131,006)</u>	
			(123,355)

Principal payment made on bond obligations		50,000
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Change In Net Assets of Governmental Activities	\$	<u>45,315</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Cheboygan Area Public Library (“Library”) was established under the authority of the District Library Establishment Act, PA 24 of 1989, as amended and the District Library Financing Act, PA 265 of 1988 as amended. The Library is governed by a Board of Trustees appointed by the townships of Aloha, Beaugrand, Benton, Grant and Inverness, the City of Cheboygan and the Cheboygan Area Public Schools. The library was officially recognized by the Library of Michigan on November 3, 1994. Prior to obtaining district library status, the Library was under the control of the Cheboygan Area Public Schools. For reasons relating to separation and reporting issues, the Library remained under the School’s control until June 30, 1995. On July 1, 1995, the Library received a cash transfer from the School equal to its share of the School’s fund balance.

The service area of the Library encompasses the boundaries of the Cheboygan Area Public School’s District, including the City of Cheboygan and surrounding townships, with the exception of Mullet Township.

The financial statements of the Cheboygan Area Public Library have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB statements and interpretations constitute GAAP for governments.

The accompanying financial statements have been prepared in accordance with the reporting model defined by GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB 34 significantly changes financial reporting for governmental entities, including Library’s. The more significant of the Library’s accounting policies are described below.

Reporting Entity

The Library has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists only of the primary government. The criteria for including a component unit include entities for which the government is considered to be financially accountable.

The accompanying statements present the activities of the Library. The Library is not a component unit of another reporting entity nor does it have any component units as defined in Governmental Accounting Standards Board Statement No. 14.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

Basis of Presentation

Basic Financial Statements

The basic financial statements of the Library include the library-wide and the fund financial statements. Prior to implementation of GASB 34, the financial statements emphasized fund types and account groups. In the new reporting model the focus is on the Library as a whole in the library-wide financial statements, while reporting additional and detailed information about the Library's major governmental activities in fund financial statements.

Library-Wide Financial Statements

The library-wide statement of net assets and statements of activities display information about the Library's primary government. These statements include the financial activities of the overall Library.

The Library-wide statement of activities reflects the cost of direct expenses reduced by directly associated revenues (program income, and operating and capital grants) to arrive at the net revenue or expense for each program and function. Net program revenue or expenses for governmental and business activities are then adjusted for general revenues to determine the change in net assets for the year. When both grant and discretionary resources are available for use, it is the Library's policy to use grant resources first, then discretionary resources as they are needed. When both restricted and unrestricted resources are available for use, it is the Library's policy to use grant resources first, then discretionary resources as they are needed.

Fund Financial Statements

The fund financial statements provide information about the Library's funds. Separate statements for each fund category - governmental, capital projects, and debt service - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as other funds.

The Library reports the following governmental funds:

General Fund – The general fund is the Library's primary operating fund. It accounts for all Library financial resources, except those required to be accounted for in another fund.

Debt Service Fund – This fund accounts for the principal and interest payments on bonds used to finance a construction project of the Library.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

Basis of Accounting

Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place.

Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

Budgets

Budgets are adopted using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund.

Budgetary accounting is used to control expenditures and monitor revenues. Budgetary accounts are established in fund general ledgers as a useful procedural adaptation of the accounting system. Estimated revenues and expenditures adopted in the budget are recorded in those accounts. Information is thus available that allows management to continuously monitor compliance with budgets. Revisions to the expenditures budget must be approved by the Library Board of Trustees.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Library considers all investments with maturity of three months or less to be cash equivalents. The Library maintains checking accounts for the governmental funds; the general and the debt service fund each have separate checking accounts.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

Investments

The Library has the authority to invest its resources as follows as allowed for by State of Michigan Statutes, which currently consists of interest earned on checking accounts.

- 1) The investment policy of the Library allows it to invest in instruments allowed by State of Michigan Statutes. State statutes authorize the Library to invest funds follows:
 - (a) In bonds, securities, and other obligation of the United States or an agency or instrumentality of the United States.
 - (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II)
 - (c) In commercial paper rated at the time of purchase with the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
 - (d) In repurchase agreements consisting of instruments listed in subdivision (a).
 - (e) In banker's acceptances of the United States banks.
 - (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
 - (g) In mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat, 789, 15 U.S.C. 80a-1 to 80a-3 to 80a-74, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - a. The purchase of securities on a when-issued or delayed delivery basis.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

- b. The ability to lend portfolio securities as long as the mutual fund received collateral at all times equal to at least 100% of the value of the securities loaned.
- c. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA7, MCL 124.501 to 124.512.
- (i) In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- 2) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- 3) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- 4) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

Penal Fines Receivable

This is for money from the court system for fines due to infractions of the law, where the funding is still yet to be received by the Library as of the end of the fiscal year. The payment was received in August of 2008.

Interfund Receivable/Payable

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

Capital Assets and Depreciation

Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not known. Contributed assets are recorded at estimated fair value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs for repairs and maintenance are expensed as incurred.

Capitalization thresholds, (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are as follows:

<u>Assets</u>	<u>Capitalization Threshold</u>	<u>Years</u>
Buildings and Improvements	\$ 5,000	25
Furniture and Equipment	\$ 5,000	3 to 5
Vehicles and Mobile Equipment	\$ 5,000	5

Depreciation is provided using the straight-line method over estimated useful lives.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Long-term Obligations

In the library-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets.

Income Taxes

The Cheboygan Area Public Library is a government entity and is not subject to federal and state income taxes. As such, no income taxes have been provided for in the accompanying financial statements.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS

As of June 30, 2008, the carrying amount of the Library's deposits was \$764,069 and bank balance were \$764,667. All cash reflected in the financial statements was deposited in National City Bank and Citizens National Bank. Cash deposits of up to \$100,000 are covered by federal depository insurance in each institution. All deposits are carried at cost plus accrued interest.

Insured Balances:

	Carrying Amount	FDIC Insured Bank Balances	Uninsured Uncollateralized Bank Balances
National City	\$ 617,323	\$ 100,000	\$ 517,323
Citizens National	146,746	100,000	46,746
	<u>\$ 764,069</u>	<u>\$ 200,000</u>	<u>\$ 564,069</u>

Details:

Included in Financial Statements Checking Account Name	Bank	Carrying Amount 6/30/2008	Bank Balances 6/30/2008
General Account	National City	\$ 590,250	\$ 591,237
Payroll	National City	26,573	26,573
Petty Cash	National City	500	111
Library Debt Reduction	Citizens National	146,746	146,746
		<u>\$ 764,069</u>	<u>\$ 764,667</u>

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 - RECEIVABLES

Receivables as of June 30, 2008 consist of the following:

	General Fund	Memorandum Total Only
	<hr/>	<hr/>
Penal Fines Receivable	\$ 79,933	\$ 79,933
	<hr/>	<hr/>
	<u>\$ 79,933</u>	<u>\$ 79,933</u>

NOTE 4 - INTERFUND PAYABLES AND RECEIVABLES

Interfund Receivables and Payables as of June 30, 2008 consist of the following:

	Interfund Receivables	Interfund Payables	Memorandum Total Only
	<hr/>	<hr/>	<hr/>
Due (To)/ From Other Funds			
General Fund	\$ (9,828)	\$ -	\$ (9,828)
Debt Service Fund	-	9,828	9,828
	<hr/>	<hr/>	<hr/>
	<u>\$ (9,828)</u>	<u>\$ 9,828</u>	<u>\$ -</u>

The Library reports interfund balances between certain funds. The balances presented in the schedule above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time difference between the dates that (1) transactions are recorded in the accounting system and (2) payments made between the funds are made.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 – DEFINED BENEFIT PENSION PLAN

Type of Plan

All employees of the Library who were employed prior to the Library's separation from the Cheboygan Area Public Schools on November 3, 1994 participate in the Michigan Public School Employees Retirement System (MPERS), a cost sharing, multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. Employees hired after November 3, 1994 are not eligible to participate in the System. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. State of Michigan statute assigns the authority to establish and amend benefit provisions to the State Legislature. The Office of Retirement Systems issued a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

For those employees not covered by MPERS, a 403(b) plan with TIAA-CREF, is contributed to by the Library at a rate of 10.14% of gross wages.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 to \$15,000; and 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the Library are established by State of Michigan statute and may be amended only by action of the State Legislature. The Library's contributions to MPERS for the years ended June 30, 2008, 2007, and 2006 were \$10,151, \$11,942 and \$9,831, respectively, equal to the required contributions for each year.

Other Post-employment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage, which are funded on a cash disbursement basis. Retirees having these coverage's contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium for the health, dental and vision coverage's.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - LONG-TERM DEBT

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Tax Bonds	\$ 2,800,000	\$ -	\$ 50,000	\$ 2,750,000	\$ 100,000

The \$2,750,000 balance is the remaining amount to be paid on General Obligation Unlimited Tax Bonds that are maturing serially with annual payments increasing from \$50,000 up to \$250,000 and bearing interest at 3.5% gradually increasing to 4.375% with the final payment in June of 2024.

Annual debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 100,000	\$ 110,350
2010	100,000	106,850
2011	125,000	103,350
2012	150,000	98,975
2013	150,000	93,725
2014-2018	825,000	377,500
2019-2023	1,050,000	192,125
2024	250,000	10,938
Total	<u>\$ 2,750,000</u>	<u>\$ 1,093,813</u>

Total interest expense for the year ended June 30, 2008 was \$112,100.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 – COMPENSATED ABSENCES

There is no provision because of unused leave due to Library policy. Vacation time must be used in the current year by Library employees. Sick leave may be carried over, however, if an employee is terminated or leaves the Library no sick leave is paid. Due to this uncertainty there is no liability for compensated absences. On the governmental financial statements individual programs are charged when an employee is actually paid for the leave time.

The Library's policy allows employees to carry forward a maximum of 6 days (48 hours) per year of sick leave, up to a maximum of 30 days (240 hours).

NOTE 8 - INSURANCE

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensations), as well as medical benefits provided to employees. The Library has purchased commercial insurance for claims relating to employee injuries (workers' compensation) and medical benefits and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss and general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The shared risk pool program in which the Library participates operates as a common risk sharing management program for municipalities in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 9 – ECONOMIC DEPENDENCY

The majority of operating revenue is provided by a millage for the Library. These taxes are collected for the Library through local municipalities. The loss of or reduction of these revenues would cause the Library to become unable to perform regular daily administrative and operating activities.

CHEBOYGAN AREA PUBLIC LIBRARY
Cheboygan, Michigan

NOTES TO THE COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Buildings and Improvements	\$ 3,265,008	\$ -	\$ -	\$ 3,265,008
Furniture and Equipment	64,739	7,651	-	72,390
Total Capital Assets at Historical Cost	3,329,747	7,651	-	3,337,399
Less: Accumulated Depreciation for				
Buildings and Improvements	135,803	118,728	-	254,531
Furniture and Equipment	7,534	12,278	-	19,812
Total Accumulated Depreciation	143,337	131,006	-	274,343
Capital Assets Being Depreciated, Net	\$ 3,186,410	\$ (123,355)	\$ -	\$ 3,063,056

Depreciation expense was charged to functions as follows:

Governmental Activities

Other	\$ 131,006
Total Governmental Activities Depreciation Expense	\$ 131,006

The increase of \$7,651 for furniture and equipment was the cost of the new Red Oak shelving.

NOTE 11 - INVESTMENTS

Investments made in mutual funds through The Community Foundation for Northeast Michigan or (CFNEM) are stated at cost adjusted for an allowance for unrealized gain or loss on the investment. The initial investment was \$97,480. The market value of these mutual fund investments was \$94,662 at June 30, 2008 after adjusting for return on investment.

Current year investment return is summarized as follows:

Dividend & Interest Income	\$ 1,786
Realized Gains	68
Fees	(83)
Unrealized Loss	(4,590)
Return on Investment	\$ (2,818)

REQUIRED SUPPLEMENTARY INFORMATION

**Cheboygan Area Public Library
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (unfavorable)
	Original	Final		
Resources (Inflows)				
Property Taxes	\$ 315,000	\$ 333,205	\$ 333,205	\$ -
State Aid	10,500	10,504	10,504	-
Penal Fines	99,351	99,351	79,933	(19,418)
Investment Revenue	25,000	22,898	24,753	1,855
Donations	-	-	100,522	100,522
Other	7,675	11,691	17,732	6,042
Amounts Available for Appropriation	<u>457,526</u>	<u>477,649</u>	<u>566,649</u>	<u>89,000</u>
Charges to Appropriations (Outflows)				
Library Services	84,710	86,570	86,008	562
Administration	293,083	297,101	297,895	(795)
Other	79,733	93,978	95,705	(1,727)
Capital Outlay	-	-	7,651	(7,651)
Total Charges to Appropriations	<u>457,526</u>	<u>477,649</u>	<u>487,260</u>	<u>(9,611)</u>
Resources Over Charges to Appropriations	<u>-</u>	<u>-</u>	<u>79,389</u>	<u>79,389</u>

The accompanying notes are an integral part of these financial statements.